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SUBJECT: GOI BUDGET - DRAMA WINDS DOWN, MORE TO FOLLOW

REF: A. BAGHDAD 766
[1](#)B. BAGHDAD 756
[1](#)C. BAGHDAD 751
[1](#)D. BAGHDAD 585

[1](#)1. (SBU) Summary: The Government of Iraq (GOI) 2009 budget is now on its way to be published in the Official Gazette and become the official GOI budget for 2009. The budget reflects changes passed by the Council of Representatives (CoR) on the budget: expenditures down to USD 58.6 billion; revenues at USD 42.7 billion; and a deficit of USD 15.9 billion. The CoR trimmed expenditures but did not lower its calculated revenues despite criticism of unrealistic economic assumptions. Accordingly, the deficit will likely be much higher than planned. Anticipating that a larger deficit will exhaust existing assets faster than expected, Finance Minister Jabr confirmed his intention to draft a "negative" supplemental in mid-year to trim expenditures and conserve assets for 2010. The Ministry plans to go back to the CoR to address some technical and policy issues that arose in discussions over the final budget law. Budget drama is likely to continue. Nonetheless, once the proposed budget appears in the Official Gazette, ministries should be able to begin drawing on their 2009 budget allocations. End Summary.

It's (almost) Official:
GOI has a Budget

[1](#)2. (SBU) The last step of the budget preparation process under the Federal Management Law is to publish the budget in the Official Gazette. Although the Council of Representatives passed the budget law on March 4 (ref D), the final version has not been published in the Official Gazette. Post has received a copy of the version that we understand was sent by the Presidency Council to the Gazette for publication. Post will provide more details after the text is fully translated and analyzed.

[1](#)3. (SBU) The principal reason for the budget delay was the extended negotiation between the Ministry of Finance and representatives of the Finance Committee. The CoR budget law indicated that expenditures be reduced by 5 trillion Iraqi Dinar (IQD) (USD 4.2 billion). The law specified that salaries, pensions, contract employees, social benefits and the public distribution system should not be cut. However, CoR members dodged the issue of what should be reduced.

[1](#)4. (SBU) Informally, members of the CoR Finance Committee demanded the Ministry of Finance show them the final budget schedules before sending the document to the Presidency Council. After several rounds of discussion, the CoR members and Ministry of Finance reached agreement on most budget details on March 30. The document, which was already signed by the Presidential Council, was sent to the Official Gazette on April 7. This cable reports on numbers contained in that version of the budget.

Budget Numbers: Expenditures -
Down to Reality, but Still Rising

[1](#)5. (SBU) Planned expenditures will total USD 58.6 billion, revenues USD 42.7 billion, with a forecasted deficit of USD 15.9 billion. Expenditures are considerably lower than first planned when oil prices were coming off their peak. For example, expenditures for

2008 were estimated to be USD 72.2 billion (2008 base plus supplemental budget enacted in August); the first 2009 budget prepared by the cabinet in early October 2008 estimated expenditures at USD 79.7 billion; while the first budget submitted to the CoR in November was USD 67.0 billion. Successive mark-downs in proposed budget expenditures reflected the continued decline in oil prices. Declines in proposed budget expenditures have given the impression of budget reductions. However, compared with 2008's final figures, Qof budget reductions. However, compared with 2008's final figures, expenditures in 2009 are set to rise by only USD 9.1 billion or about 18 percent.

¶6. (SBU) The CoR noted that the budget's oil assumptions of USD 50 per barrel and exports of 2.0 million barrels a day were optimistic.

Without changing revenue assumptions, the CoR reduced the USD 62.8 billion expenditures that the cabinet had proposed in February by USD 4.1 billion. While expenditures have not kept up with budget aspirations, they are rising and appear to be within the GOI's capacity to implement.

Expenditures: Some Details

¶7. (SBU) Of the total expenditures, USD 45.9 billion are allocated for operating costs and USD 12.7 billion are for the capital or investment budget. The USD 17 billion allocated for salaries has not changed from the initial budget, representing about 30 percent of total expenditures.

¶8. (SBU) Security continues to account for the largest portion of the budget, with combined Ministry of Interior (USD 5.5 billion) and Ministry of Defense (USD 4.1 billion) budgets totaling 16 percent of total expenditures. The Ministry of Oil has the largest capital budget at USD 2.2 billion. The Ministry of Electricity's capital budget is USD 1.1 billion, but may increase by another USD 1.4 billion if the Ministry of Finance accepts the CoR's

BAGHDAD 00000986 002 OF 003

recommendation.

¶9. (SBU) Provinces have USD 2.2 billion for their direct capital budgets, which supplement investment projects undertaken by central ministries in the provinces. Only Defense, Planning, the Council of Ministers, and the Presidency fared worse than they did with the 2008 base budget.

¶10. (SBU) Authorized personnel levels will rise by 56,324. This means that the proposed GOI budget would support 2,320,247 employees, about 30 percent of the total labor force. Ministries will enjoy an increase in staff: Education (11,500) and Higher Education (4,000), Health (9,784), Electricity (6,600), Justice (3,400), and Interior (2,000). Notably, Ministry of Defense (MOD) will have no increases in personnel.

Revenues: Oil is King, but not Midas

¶11. (SBU) Fifteen percent of anticipated revenues are based on non-oil sources, the largest being expected profits from state owned enterprises (USD 2.5 billion), and taxes and other charges (USD 1.3 billion). These estimates are likely to prove optimistic. The Finance Minister has talked about tariff increases (a new tariff law will be considered by the Cabinet) and awarding contracts to two new mobile phone providers, but knows that any significant revenues from such actions would not materialize until 2010.

¶12. (SBU) Oil exports are assumed to generate 85 percent of revenues, based on the estimates that oil prices would average USD 50 per barrel for the year and exports average 2 million barrels a day. The oil market, however, has not fallen in line with budget assumptions.

¶13. (SBU) In the first quarter, recorded income from oil revenues is estimated to have been USD 5.6 billion, about USD 3.5 billion off the budgeted amount. Export sales have hovered in the range of 1.7 to 1.8 million barrels a day. Although oil prices have recovered in recent weeks to around USD 50 a barrel, the price for the remainder of the year would have to average around the high USD 60 per barrel range for Iraq to meet its revenue target.

Deficit Financing:

This Year's Terrible; Next Year Worse

¶14. (SBU) The programmed deficit of USD 15.8 billion that emerged from the CoR is within the same range of the deficit the GOI targeted in earlier budget drafts. This is about the size of the deficit that the IMF had thought financeable back in November 2008. Nonetheless, it is likely to increase for both reasons of higher expenditures and lower revenues.

¶15. (SBU) On the expenditure side, the GOI seems to have improved budget execution. In 2008, total expenses were about as much as the 2008 base budget. True, some agencies implemented more than the base budget because they were able to tap into the supplemental allocations and/or receive reallocations from other ministries. This disguises the fact that some agencies still have difficulties with budget execution. Nonetheless, broadly speaking, it is realistic to assume that most of the USD 58.6 billion will be spent, particularly since 78 percent of the budget is for recurring operating costs.

¶16. (SBU) Actual expenditures are likely to exceed budgeted expenditures for two reasons. The first will be the likely increase in the allocation to tH7KQFinance is still intent on introducing a negative supplemental to reduce expenditures. Even if oil prices and sales

BAGHDAD 00000986 003 OF 003

were to advance, the Minister would still be looking to salvage the 2010 budget rather than this year's budget.

Budget Law Features:

Some Twists with Drama Sure to Follow

¶20. (SBU) The budget law contains more intriguing policy initiatives. Some could lead to interesting developments and more budget drama. A preview of some of these provisions follows. The new budget law prohibits the Ministry of Finance from financing the deficit by issuing T-bills without approval by a simple majority of CoR members for each new auction. This was apparently designed to block the Ministry of Finance from issuing a note requiring the Central Bank to fund the Ministry of Electricity contracts from its foreign exchange reserves, an illegal action. However, the limitation of bills would impede the operation and development of the existing T-bill market. Senior officials of both the Finance Ministry and the Central Bank have their differences, but they do agree that this prohibition should be lifted, perhaps by replacing it with a budget ceiling.

¶21. (SBU) The budget law requires the Trade Minister to develop a plan within 50 days of publication of the budget law aimed at reforming the public distribution system (PDS) to provide for the most needy citizens (means-tested) with income of less than 1.5 million IQD. Many plans for reform of the PDS have been written; few have been implemented due to its political sensitivity.

¶22. (SBU) Provinces may be given increased powers to manage funds of central ministries spent in their provinces, subject to the passage of a new law. This would be a new development in federal fiscalism which has not received much attention but would be fundamental to building a strong federal system.

Comment

¶23. (SBU) Although this is not the first time the GOI has adopted a budget, it is the first time under very difficult and changing circumstances. While financial problems will continue to plague the GOI, at least the process has produced a budget, which, for all of its problems, should be considered something of a milestone on the way towards building a functioning government.

¶24. (SBU) Chart of GOI Budgets (USD Billion):

Item/Year	2008 Base	2008 Base, Supp	2009
Revenue	42.3	70.1	42.7
Oil	35.4	63.1	36.5
Expenditures	49.9	72.2	58.6
Operating	36.8	51.1	45.9
Capital	13.1	21.1	12.7
Surplus/(Deficit)	(7.6)	(2.1)	(15.9)

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